



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Status Review

# **Yuma Elementary School District No. 1**

As of January 13, 2005

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**Debra K. Davenport**  
Auditor General

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

July 12, 2005

Governing Board  
Yuma Elementary School District No. 1  
450 West 6th Street  
Yuma, AZ 85364-2973

Members of the Board:

In our August 26, 2004, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2003. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of January 13, 2005. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

In addition, subsequent to our status review, we received and reviewed the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004.

Based on the number and nature of the deficiencies noted in our status review, our review of the 2004 audit reports and compliance questionnaire, and our performance audit of the District dated March 28, 2005, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

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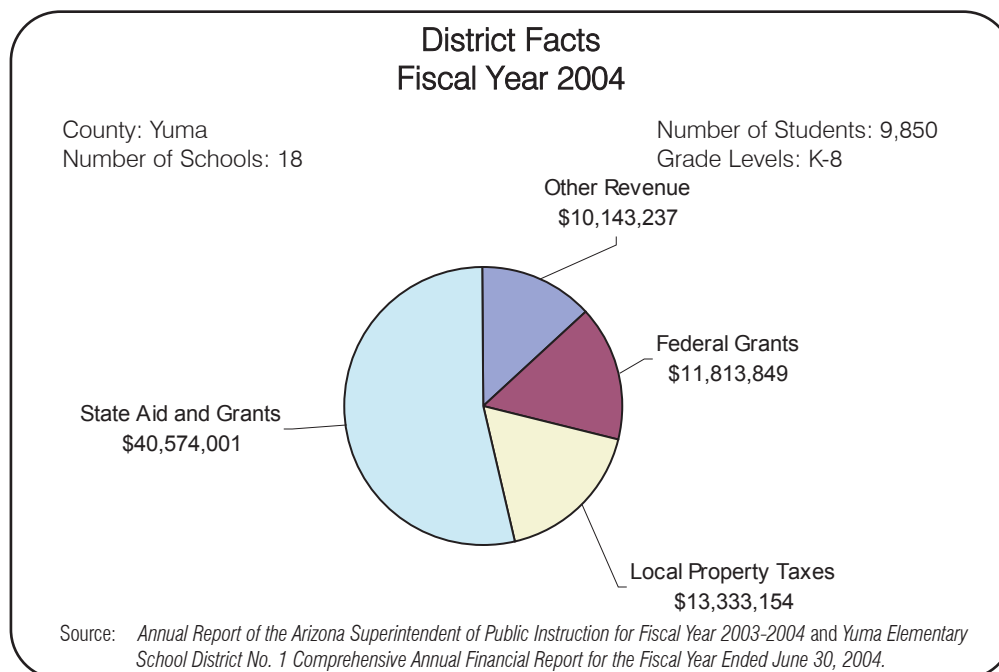


# INTRODUCTION

Yuma Elementary School District No. 1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$75 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, and our performance audit of the District dated March 28, 2005, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



# The District should ensure the accuracy of its financial information and effectively monitor its spending

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure accurate and complete accounting records and Annual Financial Reports (AFR). However, the District did not fully accomplish this objective. Our performance audit noted several instances of misclassified expenditures and found that the District did not accurately report administrative and other costs. Further, the District incorrectly classified expenditures for operating leases as capital leases. Also, the District did not accurately report budgeted expenditures and capital assets information on its AFR.

The District did not accurately classify expenditures that resulted in inaccurate reporting of administrative and other costs.

In addition, the District did not ensure that sufficient cash or budget capacity was available before authorizing expenditures. As a result, the Intergovernmental Agreement Fund had a negative cash balance at June 30, 2004, and the Medicaid Reimbursement Fund exceeded its 2004 budget. Finally, the District inappropriately used Adjacent Ways Fund monies for improvements to district property.

## Recommendations

The following procedures can help the District record and report accurate financial information:

- Verify that sufficient budget capacity exists in budget-controlled funds and that sufficient cash is available in cash-controlled funds prior to authorizing expenditures.
- Classify all transactions in accordance with the USFR Chart of Accounts.
- Use Adjacent Ways Fund monies only for improvement of public ways adjacent to school property.
- Update accounting records for all revenues, expenditures, transfers, and all necessary adjustments before preparing the AFR. Once prepared, require a second employee to verify that amounts reported on the AFR agree to the District's adopted budget and accounting records before it is submitted to ADE.

USFR §III provides guidance for classifying financial information.

# The District should strengthen internal controls over its intergovernmental agreements

Since 1991, the District has participated in a computer services intergovernmental agreement (IGA) and a transportation IGA with the Yuma Union High School District, Arizona Western College, and Northern Arizona University's Yuma campus. The IGAs were formed to lower participants' computer services and transportation costs. The Yuma Educational Consortium carries out the day-to-day operations of both IGAs, with a governing board consisting of a board member from each partner organization and a district employee serving as the consortium's chief executive officer. The District was the fiscal agent for the transportation IGA.

However, the District did not maintain proper internal controls over the consortium or transportation operations. Our performance audit found significant internal control deficiencies related to the District's participation in the consortium. Those findings, along with recommended corrective action, are described in our March 2005 performance audit report. In addition to the deficiencies described in that report, our status review disclosed that the District did not have procedures to ensure that all revenues from billed transportation services were collected and the transportation IGA did not include instructions on how to remedy possible operating deficits.

## Recommendations

The recommendations in our March 2005 performance audit report as well as the following procedures can help the District strengthen internal controls over its intergovernmental agreements:

- Establish a procedure to ensure that all transportation services revenues are collected. Attempt to collect unpaid amounts and write-off uncollectible accounts at fiscal year-end.
- Amend the transportation agreement to include instructions for eliminating deficits.

# The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules. For example, the District issued



The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

requests for proposals without determining in writing that issuing requests for proposals would be more beneficial to the District than issuing invitations for bids.

Further, the District did not always document that it selected vendors based on the evaluation factors listed in the requests for proposals. Also, the District did not always issue invitations for bids for purchases that exceeded the competitive sealed bid threshold. Additional significant procurement deficiencies were noted in our March 2005 performance audit report.

## Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules, the District must establish and follow the policies and procedures listed below:

- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Before issuing requests for proposals, obtain written determinations from the Governing Board, when applicable, that issuing invitations for bids is either not practicable or not advantageous to the District.
- Retain documentation to support that the contract was awarded to the selected vendor based on the evaluation factors listed in the request for proposals.

School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.

## The District's capital assets lists should be accurate and complete

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to maintain accurate lists of these assets. However, the District did not maintain

The District did not accurately account for or protect its investment in capital assets of over \$62 million.

accurate lists of these assets since it listed some modular buildings as both buildings and equipment. In addition, the District did not reconcile its physical inventory results to the lists or the prior year's capital assets list to the current year's list. As a result, the District did not include all assets that it should have on the stewardship list, and could not locate some items on the lists.

Further, the District inappropriately included some expenses, such as consulting and maintenance costs, on its capital assets list. Also, the District listed some equipment acquired through the E-rate program at the cost the District paid rather than the total cost.

## Recommendations

To improve control over its capital assets and help ensure accurate and complete capital assets and stewardship lists, the District should:

- Prepare and maintain a capital assets list of items costing \$5,000 or more and with useful lives of 1 year or more.
- Prepare and maintain a stewardship list of equipment items costing between \$1,000 and \$5,000.
- Record items at actual cost including any cost paid on the District's behalf by other entities.
- Reconcile physical inventory results to the lists and add items to or remove items from the lists as necessary.
- Reconcile the prior year's capital assets list to the current year's list, and make all necessary corrections.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

The form on USFR page VI-E-14 may be used to reconcile the current year's capital assets list to the prior year's list.